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JUN 27 1949

No. 114

The Honorable

Richard C. Patterson, Jr.,
American Ambassador,
Guatemala.

Sir:

Reference is made to the Department's Restricted Instruction No. 80 of June 14, 1949 which directed you to express to President Arevalo this Government's concern over the attitudes adopted and the measures taken by the Guatemalan Government in disparagement of American rights and of good relationships between Guatemala and the United States.

The Department fully approves of the manner, as reported in the Embassy's Despatch No. 331 of June 30, in which you approached the President.

The Department is, however, seriously concerned that although you made specific reference to the developing conflict between the International Railways of Central America and the Guatemalan Labor Union SAMF, no evidence has been developed to indicate that the President or any agency of his Administration has taken positive action to insure that the IRCA would receive fair and just treatment in accordance with the established law of Guatemala. On the contrary, the Government of Guatemala, by indifference and inaction, seems to have condoned if not approved, what appears to have been an attempt to coerce the IRCA into entering into compulsory arbitration of the dispute, without first attempting to utilize conciliation procedures, as stipulated in the Labor Code.

Furthermore, the Department is seriously concerned that the Arbitration Tribunal, accepted with reservation and under protest by the IRCA, was composed of labor and management representatives of dubious competence; that the Court Representative has given evidence of bias in

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favor of the Union case; that there is evidence of unseemly participation in the deliberations of the board by the Coordinating Magistrate of the Labor Courts; that the management representative has given reason to believe that he was coerced into signing the arbitration award, without having been given an opportunity to study the case, or interview witnesses and obtain qualified and expert advice; that the award was apparently rushed through in an effort to complete action before the Supreme Court had had an opportunity to decide upon the IRCA's appeal for an injunction against the Arbitration Board on legal grounds; and that labor elements endeavored to intimidate the Supreme Court of Guatemala which was considering the IRCA's appeal.

It is further a matter of deep concern to note that when the President of the IRCA personally requested the intercession of President Arevalo, he is reported to have agreed with the IRCA's position and promised assistance. However, nothing positive has been accomplished by him nor is there evidence that he endeavored to act forcefully upon his reported commitment.

In the face of these circumstances, the Department has been reluctantly led to have grave doubts that United States firms will be in a position to secure impartial justice in Guatemala so long as the Government appears to condone obviously improper activities and takes no action to insure the right, long recognized and established by international usage, of foreign elements to live and work within the framework of the laws of host nations.

As a consequence of these developments, and provided you perceive no objection, you are requested to seek an immediate interview with President Arevalo to discuss with him specifically the critical situation which now confronts the International Railways of Central America and the significance which the Department places upon this case as a portent of the future of good relationships between Guatemala and the United States.

In this interview you should remind the President of your previous discussion of the case and should review for him, step by step, as reported in your several communications to the Department, the progress of the dispute and the facts as they are known to the Embassy and to the Department. You should state that the Department's viewpoint is based upon these facts, and you should indicate that if they are considered by him to be incomplete or inaccurate, the Department would welcome full clarification. Otherwise, you should state that the IRCA is now faced with the choice of refusing to comply with the award of the Board, thereby appearing to defy the majesty of the

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Guatemalan courts, or of complying with the award of the Board, which it considers to have been illegally constituted and granted and thereby placing itself in serious economic jeopardy.

You should imply that the Department considers it very regrettable that the President has not seen fit to use his influence to assure fair treatment of American interests, and that if the Department's information is well founded, the IRCA is fighting for its very existence against circumstances which may ultimately force it into an appeal for intervention of the Government of the United States on the grounds of a denial of justice.

In making this statement you should refrain from indicating that this Government in any way prejudices the situation and considers that there has in fact been a denial of justice. Rather, you should indicate that the situation appears at this time to be serious enough to warrant and require the immediate attention of both Governments so that every effort may be exerted to avoid a possible consequence of this disagreeable nature.

In a convincing manner you should indicate to the President that public opinion in certain parts of this country has been aroused by the reported Guatemalan treatment of Americans and American enterprise. Therefore, the question has now arisen as to the extent to which the Government of the United States can continue, with technical aid and funds, to join with other nations in friendly cooperative projects when a reciprocal desire for mutual understanding is not demonstrated by the insurance of fair and impartial treatment to American individuals and firms resident in such countries.

For your information, it is contemplated that the Guatemalan Ambassador will be requested to call at the Department, at a time to coincide with your interview with the President, for a full and frank discussion of the IRCA case.

You should make it entirely clear to the President that you are acting on the specific instructions of your Government in this matter.

Very truly yours,

For the Secretary of State:

Edward G. Miller, Jr.
Assistant Secretary

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

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No. 331.

Guatemala, June 30, 1949.

SUBJECT: Transmitting Memorandum of Conversation with
President AREVALO on the Subject of Relations
Between Guatemala and the United States.

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THE SECRETARY OF STATE,

WASHINGTON.

SIR:

Referring to the Embassy's Telegram no. 274 of
June 27, I have the honor to enclose for the Department's
further information a memorandum covering more fully
my conversation of the same day with President AREVALO,
pursuant to the instructions outlined in the Department's
Instruction no. 80 of June 14, 1949, on the subject of
relations between Guatemala and the United States.

Whatever the immediate results of this conversation
on vital questions currently affecting our relations with
Guatemala, I feel that a necessary first step toward
possible improvement of those relations now has been taken
in apprising the President, in a friendly but frank manner,
of the very serious concern with which the United States
Government views certain adverse attitudes and measures
of the Guatemalan Government.

Respectfully yours,

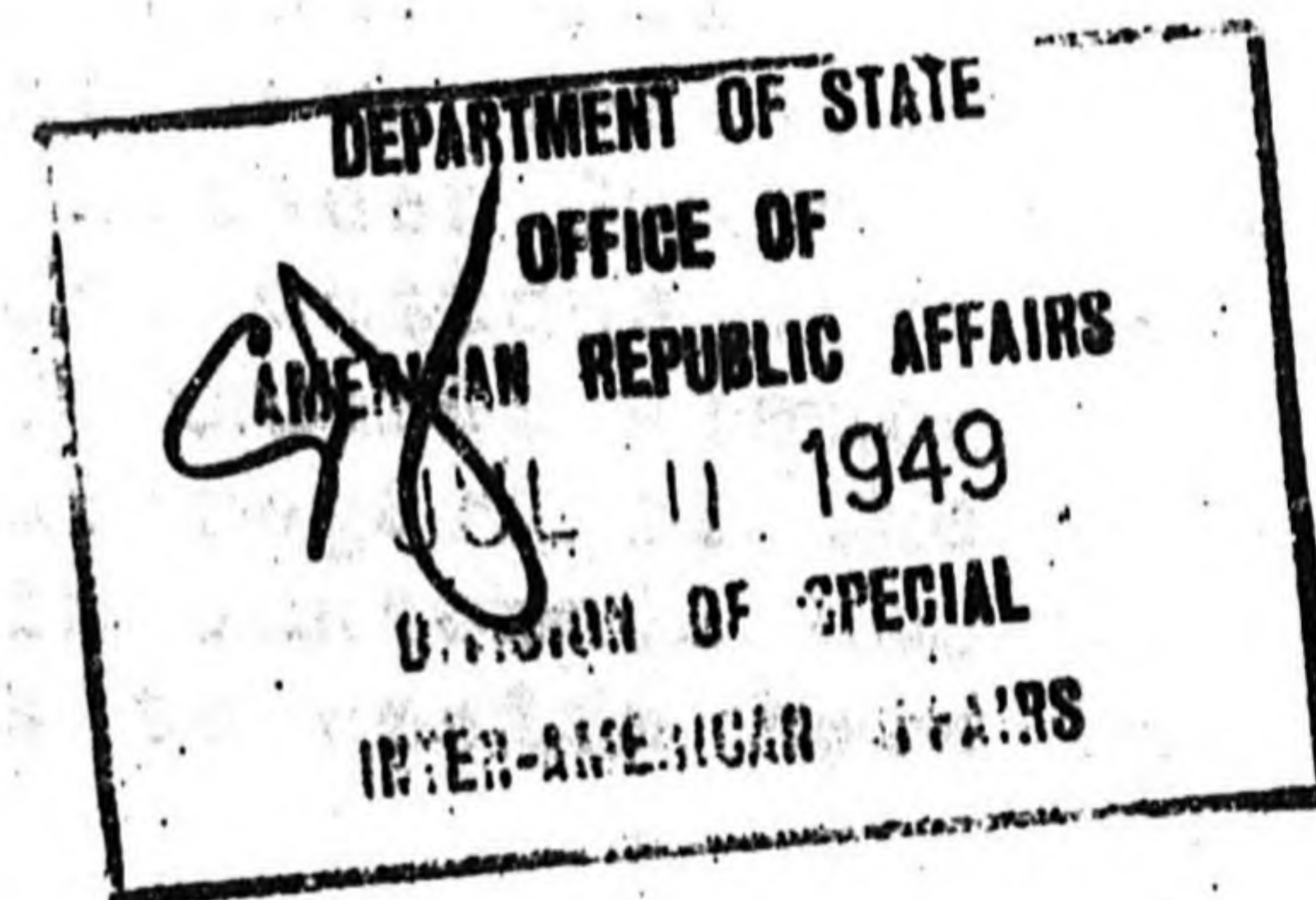
Richard C. Patterson, Jr.

Enclosure: *[Signature]*

Memorandum of Conversation.

File no. 350
MKWells/mch
Parchment to Department.

Copy to Guatemala Desk Officer.



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RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

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Enclosure to Despatch no. 331, dated June 30, 1949, from the American Embassy, Guatemala, on the subject: Transmitting Memorandum of Conversation with President AREVALO on the Subject of Relations Between Guatemala and the United States.

MEMORANDUM OF CONVERSATION

June 27, 1949.

Participants:

Dr. Juan José Arévalo
President of Guatemala

Ambassador Richard C. Patterson, Jr.

First Secretary, Milton K. Wells.

Subject: United States-Guatemalan Relations.

The President received the Ambassador promptly at the appointed hour of 11:00 o'clock, and the interview terminated at approximately 12:45.

A few minutes were consumed in discussing the Embassy residence rental contract. It was agreed that the Government would renew the lease at a per annum rate of \$6,000, with the renovations to be undertaken at United States Government expense.

Coming to the object of his call, the Ambassador prefaced his remarks by saying he had prepared, in writing, a summary of his proposed comments, which he would ask me to translate literally in order that there may be no misunderstanding. This summary reads as follows:

"As your friend, Mr. President, I come first to express frankly my personal concern with the impression that has been created in Washington by the attitudes and measures taken by the Guatemalan Government against American rights, and of good relations between our two countries. I am disturbed, also, by the impression found among American business circles in the United States regarding Guatemala.

"I have been instructed by my Government to bring the situation to your personal attention. For some time, actions of the Guatemalan Government have reflected a lack of concern for good relations between Guatemala and the United States. Some of these actions involve cooperation and assistance to pro-Communist elements; other actions have demonstrated a disregard of the rights of United States interests in Guatemala and of the right of United States citizens to reside here in accordance with Guatemalan law.

"United States private capital is contributing to Guatemalan economy. It could play an increasing

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role in the development of the country were a favorable atmosphere created for foreign investments through the impartial administration of non-discriminatory laws. My Government hopes that it will be possible for United States public and private capital to contribute to economic and social development of Guatemala. (Must be remembered, cornerstone of President TRUMAN's Point Four program is reliance upon private capital, and proper encouragement thereof.)

"I am sure you appreciate the friendly spirit in which my remarks are made, and my frankness. However, in the same spirit and frankness, I must state that my Government feels it cannot continue to conduct its relations with the Guatemalan Government in that cooperative spirit unless there is a reciprocal desire on the part of the Guatemalan Government to contribute likewise to fair treatment, and friendly cooperation."

The President listened attentively, interrupted only once to ask that the Ambassador give specific cases to illustrate the situations that had created the referred to adverse impressions of Guatemala. (He also took many notes on the points discussed). It was agreed that I should cite illustrative cases upon termination of the Ambassador's general remarks. The remainder of the conversation concerned the following specific situations:

Unfair Treatment of United States Concerns in General

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The President was told that the harassment and constant attacks from Government and labor, which United States business interests in general have suffered during the past four years, had unquestionably brought them, collectively and individually, to the point of discouragement, and of uncertainty as to their future in Guatemala. Of this, the President personally is aware from his many talks with United Fruit Company, International Railways of Central America, Empresa Electrica and Pan American Airways representatives. Each, in varying degrees, is at a crisis. The United Fruit Company is faced with the dilemma of risking further development investments of approximately nine million dollars, or of abandoning the North Coast (Bananera) completely to disease; a similar dilemma confronts the Empresa Electrica. It was recalled that a few months ago the Vice President of the American Foreign Power Company, Mr. MOSELEY, had a frank discussion with the Minister of Communications, in which he laid the cards squarely on the table. He came away with all assurances that the Government has no intentions of expropriating the company, and that new investments are welcomed and would be protected. Two weeks later, the Congress received, with much publicity, the committee report recommending cancellation of the Empresa Electrica contract. Retroactive tax

Briefly, the President was reminded that the two United States lumbering companies operating claims

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claims are hanging over the head of this firm, as well as the International Railways of Central America. All four companies are constantly harassed with threats of revision or cancellation of their respective contracts. They do not object to revision of contracts per se, in fact they would welcome discussion on contractual changes thought desirable by the Guatemalan Government; what they object to is the retroactive and unilateral nature of the proposals coming from Government quarters. The President was reminded that both IRCA and the United Fruit Company had come to him personally with proposals for certain revisions to give the Government tax advantages; that, however, the hostile atmosphere in Congress, the Ministry of Economy, and elsewhere, had made efforts in this direction futile.

The President, early in the conversation, said he wished us to understand that the policy of his Government is not anti-Yankee; to the contrary, that policy is one of fullest cooperation with the United States. What is happening, he said, is that the non-discriminatory policy of the Government to better the living conditions of the people affects capital, Guatemalan and foreign alike. The United Fruit Company, for example, would have felt the same effects if it were a Belgium or French concern. The efforts of the Government are devoted to social and economic betterment of the people, long suffering on wages of twenty-five cents a day. Given such poverty, it was not surprising that pro-Communist propaganda had made headway. The President emphasized once or twice that he is anti-Communist in ideology, was a documented anti-Communist in Argentina, and his aim precisely is that of correcting the social maladjustments between capital and labor which provide fertile soil for Communistic ideas. Only then, he said, will Communism be defeated. He indicated several times that he proposes to govern democratically; therefore, his personal power is limited. He stands ready to use his political influence to right injustices, but where questions of law, the authority of Congress, et cetera, are at issue, he may not intervene as would dictators SOMOZA and TRUJILLO. Surely, the United States does not wish him to adopt that course.

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The Ambassador and I, at length, pointed out that it is public knowledge that these United States concerns pay the best wages in Guatemala, not to mention the incomparably better social and other indirect benefits enjoyed by their employees. They have a comparatively enlightened labor policy, and are most desirous of cooperating with the Guatemalan Government in the program of social and economic improvement; but it is the hostile attitude found in Government circles, as well as in labor, that obstructs that cooperation.

Briefly, the President was reminded that the two United States lumbering companies operating on contract

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with the Government in the Petén had been forced to withdraw within the last year, with heavy losses, due to the Government's Belize policy; and that for a number of reasons, all not familiar to the Embassy, the chicle companies had announced their discontinuance of operations in Guatemala. The discouraging experiences of the three United States oil companies seeking to enter the country on exploitation contracts were also briefly mentioned.

International Railways of Central America Labor Conflict

With particular regard to IRCA, the President was told that in the Embassy's opinion the current labor conflict is rapidly degenerating into a situation comparable to that which confronted the United Fruit Company in the Puerto Barrios conflict a few months ago. The biased and arbitrary handling of the case by the labor judge, and the attempt to force the company into compulsory arbitration without regard for the provisions of the Labor Code which require conciliation as the next step, are threatening to place the company in the alleged position of "rebellion against the majesty of the Court". Already it appears that the conflict has lost the character of a quarrel between the union and the company over economic demands, and, as in the United Fruit Company case, has become a fight between the Government, as represented by the Coordinating Magistrate of the Labor Courts and the Court themselves, over procedural matters. Right now, it seems that the Labor Court judge is trying to get a decision from the arbitration board before the Supreme Court has had time to pass upon the company's appeal for a provisional injunction. Should this occur, the situation would become unpleasant and would likely raise the question of whether there had been denial of justice. (The president made no specific promises to do anything about this unfortunate situation, rather indicating otherwise by saying he stands ready to intervene on political issues, but may not interfere with the democratic functioning of the Labor Courts nor in employer-labor conflicts over economic matters).

Expulsion of American citizens

The cases of SCHUTT and TORRES of Pan American Airways were named. The President professed ignorance of the Torres case, so he was given details. As for Schutt, he said he is still convinced Schutt deserved expulsion for political reasons, but that nevertheless the order had later been rescinded and Schutt now could freely reside here. Anticipating mention of the ESSO Case, he said he personally had intervened by ordering the police to withhold execution of the expulsion orders. I acknowledged his helpful personal intervention in the Esso cases (two of which concern American citizens), but stated I was not informed on the current status of the matter, and that, nevertheless, these cases appropriately illustrated a hostile atmosphere against

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American citizens and interests. Were it not for this hostility in the lower echelons, these cases would never have been brought to the President's personal attention. It is lamentable that such is the situation.

Pro-Communist influence in Labor; Close Relations
Between Government and Labor.

My opening statement that Government and labor cooperate closely in Guatemala was readily admitted by the President. It is regrettable, therefore, I said, to observe so many evidences of pro-Communist influences within labor; to hear the Confederación de Trabajadores de Guatemala and the Federación Sindical de Guatemala leaders constantly repeat the all-too-familiar anti-imperialist line. Last Saturday night, I said, I had listened to the FSG regular program, and had heard the announcer spend minutes praising the new people's movement in China, which, at long last, thanks to the victorious Red armies, was expelling the imperialistic powers from China. The President asked whether I was sure this was FSG program and not a CTG program, since he had the impression the FSG was pro-United States. I told him there was no mistake; anyway, it was something that could be checked. The Embassy's observation has been that, increasingly over the past six months, there has been little to distinguish the FSG from the CTG political line - both obviously parroting the CTAL, ex-WFTU propaganda on world issues. It is notable that while many of the independent labor unions of the Western Democracies, including the CIO in the United States, have withdrawn from the Soviet-dominated WFTU, CTAL and its affiliate in Guatemala, CTG, still adhere; also lamentable, I said, that at the moment Victor Manuel GUTIERREZ and Manuel PINTO Usaga are en route to the WFTU meeting at Milan supported by Guatemalan diplomatic passports, not to mention that Gutierrez and José Manuel FORTUNY, also with diplomatic passports and as spokesmen for Guatemalan labor, had recently attended the Paris World Peace Congress which, as was common knowledge, was a Soviet propaganda creation.

With respect to the issuance of these diplomatic passports, the President said the explanation may sound infantile, but is merely a reflection of a common Latin vice - that of giving diplomatic passports to friends of the Government for reasons of convenience. In the cases of Fortuny and Gutierrez, both were given their diplomatic passports as a courtesy to ex-Deputies who had loyally supported the revolution and his Government. It had no other significance. It is unfortunately true, the President said, that Communist propaganda has penetrated Guatemalan labor; but, under a democracy such as today exists in Guatemala, the Government is powerless to intervene without taking dictatorial actions. Labor's pro-Soviet propaganda should not be taken as representing Guatemalan

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attitude. Again, he reiterated, his policy is precisely directed toward a long-range program of social and economic improvement as the only sure defense against Communism. In the process, capital must suffer what, at times, it may feel is unjust treatment.

Pellecer

The name was no sooner mentioned than the President interrupted. He recalled that during one of the Ambassador's first interviews with him, the Ambassador referred in general terms to the pro-Communist activities of certain unnamed officials. Later, he had asked Mr. BARRETT (who had acted as interpreter on that occasion) please to give him names. The Embassy, through Miguel SANDOVAL, sent word that the Ambassador had PELLECECER particularly in mind, but submitted no evidence. I told the President that the pro-Communist activities of Pellecer in Europe had become so notorious that the State Department instructed the Embassy several months ago to bring the matter to the attention of the Ministry of Foreign Affairs; that the matter of evidence was naturally a delicate one, but he could be assured the United States Government would not have made such representations regarding Pellecer unless facts warranted.

Winding up his part of the conversation, the Ambassador asked me once again to translate the last paragraph of his summary statement (see above) to emphasize the purport of his representations.

For his part, the President said he wished to end the interview on a philosophical note. The picture here is part of the world-wide struggle between capital and labor; capital feels the pressure of labor for better working conditions; only through permanent amelioration of the social and economic maladjustments will democracy prevail and the danger of Communistic ideas be averted.

Milton K. Wells
First Secretary of Embassy

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